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FISCAL IMPACT STATEMENT

LS 6337

BILL NUMBER: HB 1001

NOTE PREPARED: Nov 18, 2003

BILL AMENDED:

SUBJECT: Property Tax Relief.

FIRST AUTHOR: Rep. Crawford

FIRST SPONSOR:

BILL STATUS: Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill makes several changes to the property tax system.

Deduction/Credit Filing Extension: This bill extends the deadline from May 2003 to December 15, 2003, to file an application to receive a Homestead Credit and certain deductions in 2004.

Taxpayer Notice: The bill requires county treasurers to include information about available tax relief in the 2004 tax statements.

Standard Homestead Deduction: The bill increases the Homestead Standard Deduction amount for two years.

Historic Homestead Deduction: The bill establishes an additional homestead deduction for older homes.

Three Appraisal Methodologies for Rental Properties. The bill provides that the true tax value of rental property is the lowest appraisal amount determined by applying the income capitalization, cost, and comparable sales approaches.

Farmstead Deduction: The bill establishes a farmstead deduction.

Maximum Levies: The bill changes the method of calculating the maximum allowable property tax levy for civil taxing units to eliminate the use of "banked" levy amounts and to limit levy growth to 5%.

Certified Assessed Value: The bill eliminates the authority of taxing units to use an assessed valuation that is less than the assessed valuation reflected on the abstract as the basis for setting tax rates.

Approval of Appointed Library Board Levies: The bill requires appointed library boards to submit their budgets to an elected city or county fiscal body.

Bond Bank Investments: The bill grants the Indiana Bond Bank additional flexibility in financing tax anticipation warrants for property taxes that were not collected on the regular due dates.

PTRC / Homestead Credit Settlement: The bill requires settlement of overpayments of Property Tax Replacement Credit distributions resulting from the resolution of taxpayer appeals.

DLGF Takeover of Assessment: The bill authorizes the Department of Local Government Finance to assume assessment or annual adjustment duties under certain circumstances.

Installment Payments and Penalty Waivers: The bill allows the county treasurer to accept installment payments and to waive late payment penalties.

Validating Actions Taken by the DLGF: The bill validates various actions taken by the Department of Local Government Finance and local assessing officials in 2003 concerning the allowance of installment payments, the waiving of late penalties, and the extension of the deadline for appeal.

Elimination of Taxpayer Notice of Assessment: The bill eliminates the notice of change in assessment procedure.

Qualifications of Assessors: The bill requires county assessors and township assessors to be certified in order to hold office after December 31, 2005.

Electronic Submittal of Sales Disclosure Forms. The bill requires counties to submit sales disclosure data to the state in electronic form.

Assessment Software: The bill requires the Department of Local Government Finance to determine whether a uniform statewide assessment computer system is affordable and necessary.

Provisional Property Tax Statements: The bill allows provisional tax bills to be issued after 2004, if needed.

Automatic Refunds for Successful Appeals: The bill requires tax appeal refunds to be sent to taxpayers without filing a claim.

Maximum Tax Rates: The bill allows the Department of Local Government Finance to adjust statutory tax rate limits to eliminate the effects of reassessment.

Appeal Process: The bill eliminates the requirement to file a Form 130 before initiating a property tax appeal.

Levy Excess Fund: The bill requires the total amount of actual property tax distributions that exceed the certified levy to be deposited in the Levy Excess Fund and requires the unit to use the amount in the Levy Excess Fund when setting the unit's budget.

Special Masters: This bill provides for special masters to hear appeals to the Indiana Board of Tax Review.

Effective Date: Upon passage; July 1, 2003 (retroactive); January 1, 2004; January 1, 2004 (retroactive); July 1, 2004; January 1, 2005.

Explanation of State Expenditures:

For all sections that affect Property Tax Replacement Credits (PTRC) and Homestead Credits: Property Tax Replacement Credits and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented by the state General Fund. Any savings of PTRC and Homestead Credit expenditures would ultimately benefit the state General Fund.

The following is a summary of the provisions affecting the Property Tax Replacement Fund.

Estimated* Change in Property Tax Replacement Fund Expense			
	FY 2004	FY 2005	FY 2006
Deduction/Credit Filing Extension	4,000,000	8,100,000	-
Standard Homestead Deduction	(5,600,000)	(14,200,000)	(6,100,000)
Historic Homestead Deduction	(1,600,000)	(5,000,000)	(5,000,000)
Maximum Levies	(8,400,000)	(25,400,000)	(26,600,000)
Net Change	(11,600,000)	(36,500,000)	(37,700,000)
* The combined effects of these provisions may differ from the above totals due to the interaction of the above proposals.			

Deduction/Credit Filing Extension: Under current law, an application for a property tax deduction or homestead credit must be filed by May 10th to be effective for taxes paid in the following year. Under this proposal, a taxpayer would be entitled to a deduction or homestead credit for taxes paid in CY 2004 if the application is filed by December 15, 2003, and the taxpayer meets all other eligibility requirements. Under current law, these deductions and credits would not be effective until taxes are paid in CY 2005. This provision would have the effect of allowing these deductions and homestead credits to become effective one year early.

Based on available 2003 county abstract data and 2003 property tax parcel record data compared with Census estimates for owner-occupied housing, it was estimated that as many as 5.7%, or 95,000 homeowners, may not have filed for the homestead credit. The resulting additional homestead credit for CY 2004, assuming that all 95,000 homeowners file for the credit, is estimated at \$12.1 M. **The additional expense by fiscal year is estimated at \$4.0 M in FY 2004 and \$8.1 M in FY 2005.**

(Note: These estimates were based on data from a small number of counties and are subject to change as more data is received.)

Taxpayer Notice: Under this proposal, the Department of Local Government Finance (DLGF) would be required to provide to each county a form containing a comparison of the average 2004 net property tax on homesteads with and without the tax mitigation measures enacted by the General Assembly. The DLGF must do this by February 15, 2004.

The DLGF could compute an estimated average 2004 net tax for homesteads using parcel record data provided by the counties for taxes paid in 2003. Because of late 2003 tax billings, this data may not be available in a timely fashion for all counties.

This would be a large task to complete for all 92 counties in a very short amount of time. The DLGF might incur some additional expenses in CY 2004 for temporary employees and computer consultants in order to make these calculations in a timely manner.

Standard Homestead Deduction: The increased deduction in this proposal would cause a reduction in homesteaders' property tax bills which would result in a savings of homestead credit expenditures. **The savings are estimated at \$5.6 M in FY 2004, \$14.2 M in FY 2005, and \$6.1 M in FY 2006.**

Historic Homestead Deduction: The new historic homestead deduction in this proposal would cause a reduction in some homesteaders' property tax bills which would result in a savings of homestead credit expenditures. **The savings are estimated at \$1.6 M in FY 2004 and \$5.0 M per year thereafter.**

Three Appraisal Methodologies for Rental Properties. For assessment dates after February 28, 2003, the bill provides that real property regularly leased or rented must be assessed at the lowest valuation that results from the use of three methodologies: cost approach, sales comparison, and income capitalization. For assessment dates after January 14, 2003, the true tax value of rented mobile homes must be assessed at the lowest valuation that results from the use of the three methodologies. The DLGF may adopt rules to establish land values for land connected with rental properties. The DLGF must notify assessing officials of land values established. The DLGF should be able to absorb administrative expenses associated with rule adoption and notification.

Maximum Levies: The maximum levy reductions contained in this bill would also result in a savings of PTRC and Homestead Credit expenditures. **The savings are estimated at \$8.4 M in FY 2004, \$25.4 M in FY 2005, and \$26.6 M in FY 2006.** This savings would grow by an estimated 4.5% - 5% each year thereafter.

Certified Assessed Value: If the amount billed for property taxes is reduced by using the total billed assessed value to calculate tax rates (see *Explanation of Local Revenues*), then the state could experience a savings in PTRC and Homestead Credits. The amount of PTRC and homestead credit reductions under this provision would be difficult to estimate. This proposal would first be effective for taxes paid in 2004. When final values are certified for 2004 tax rate calculations, many appeal issues from 2003 will probably have been dealt with and would no longer be an issue. Still, there will be appeals that have not been settled and even new appeals that were filed after the deadline for 2003 taxes. Also, the credits paid on any levy imposed to cover a previous year shortfall would reduce the credit savings. Over time, the savings would most likely equal the credit amount on between 0 and 2% of the certified levy.

Approval of Appointed Library Board Levies: If the review by an elected fiscal body reduces the levies below the maximum levy as explained in *Explanation of Local Revenues*, then the state would realize a savings equal to 20% of the portion of the reduction attributable to real property. This savings would come from a reduction in the payment of PTRC. In addition, the state is responsible for Homestead Credits equal to 20% of the net levy. Any levy reduction would also reduce the state's Homestead Credit liability.

PTRC / Homestead Credit Settlement: This bill would clarify that the December settlement of PTRC and Homestead Credits must account for any changes in the amount of credits allowed as a result of the resolution of appeals or other corrections from any year. This means that the state would receive repayment

of credits that were paid (1) on valuation that is successfully appealed; and (2) assessments or billings in error.

Current law is unclear on this matter. However, under current practice, settlement is already handled under the terms of this provision. When an assessment is lowered or a refund is paid, the state receives a refund of the credits that it paid on the tax billing in question. This is true even when an appeal is adjudicated or an error is corrected several years after the assessment was first made and the credits were paid.

In addition, because collections of property tax that exceed 102% of the certified levy are used to reduce future tax levies, future credit payments are reduced by the credits attributable to this amount. Over time, the state pays PTRC and Homestead Credits based on no more than 102% of the certified levy. Since spendable property tax levies would be limited to 100% of the certified levy under another provision of this bill, the state's expense for PTRC and Homestead Credits would be based on no more than 100% of the certified levy in the long run.

DLGF Takeover of Assessment. If the DLGF orders a state-conducted reassessment, the DLGF must assume the duties of the county's reassessment officials. Before assuming the duties, the DLGF must transmit a copy of the order requiring a state-conducted reassessment to the county's reassessment officials, the county fiscal body, the county auditor, and the county treasurer. Notice of the DLGF's actions must be published in a newspaper of general circulation in the county. However, the DLGF is not required to conduct a public hearing. Township and county officials in a county must provide access to all data, records, maps, etc., at no cost to the Department.

The DLGF may enter into a contract with a professional appraising firm to conduct a reassessment. If a county or township has already entered into a contract with a professional appraising firm to conduct the reassessment, the contract must be treated as a contract of the DLGF. After receiving the report of assessed values from the appraisal firm acting under a contract, the DLGF must give notice to the taxpayer and the county assessor, by mail, of the amount of the reassessment. The notice is subject to appeal by the taxpayer and must include the taxpayer's rights. The DLGF must forward a bill for service provided under contract to the county auditor. The Commissioner of the Indiana Department of Administration, the Director of the Budget Agency, and the Attorney General have seven days to review and act on a contract of the Department.

If the DLGF or the contractor find that the land values determined for the county do not reflect the true tax value of land, the DLGF or the contractor must determine land values. The DLGF or the contractor must notify the county's reassessment officials of the land values.

A contractor may notify the DLGF if a county fails to pay the bill. The DLGF must verify the accuracy of the contractor's assertion and provide to the Treasurer of State the DLGF's approval of the contractor's bill. Upon receipt, the Treasurer of State must pay the contractor from money in the possession of the state that would otherwise be available for distribution to the county, including distributions from the Property Tax Replacement Fund or distribution of admissions taxes or wagering taxes. Money from the Property Tax Replacement Fund must be withheld first.

The above provisions expire January 1, 2007.

The contractor may be required in the contract to represent the DLGF in appeals and to afford the taxpayer an opportunity to attend an informal hearing. After the hearing, the contractor forwards recommendations pertaining to assessment changes to the DLGF. A taxpayer must initiate the informal hearing by notifying

the DLGF not later than 45 days after the DLGF gives notice to the taxpayers of the amount of the reassessment. The DLGF must send the results of the hearing to the taxpayer, the county auditor, the county assessor, and the township assessor. If the Department does not send the notice within 270 days, the DLGF may not change the amount of the reassessment and the taxpayer may appeal the reassessment. The DLGF may adopt emergency rules to implement the above.

The DLGF or contractor may petition the Indiana Tax Court to order local assessing officials to provide information. The Tax Court may order the official to provide information.

The overall impact of the above provisions is indeterminable and will depend on the number of counties for which a state-conducted reassessment is ordered. The DLGF may order a state-conducted reassessment in the county if (1) the county does not submit the county's equalization study to the Department before October 20, 2003; or (2) the DLGF considers the reassessment work of a county's reassessment officials inaccurate and flawed. According to the October 23, 2003, Reassessment Status Report, 87 counties had submitted their equalization studies to the DLGF. By November 13, 2003, data, 89 counties indicated that equalization studies were complete. Based on this data, three counties (Noble, Brown, and Lawrence) could be subject to a state-conducted reassessment. It is unknown how many counties would be subject to a state-conducted reassessment based on the quality of the local reassessment.

Based on information received as of November 2002, costs for reassessment for counties ranged from \$47,800 (Union County) to \$20 M (Lake County). (Data for Marion County was unknown.) Average reassessment costs equaled about \$655,000 (excluding the \$20 M costs incurred by Lake County and excluding Marion County). Generally, the bill should increase administrative expenses for the DLGF; however, reassessment costs will be paid from county funds.

Installment Payments of Property Taxes. Under the proposal and under certain circumstances, the county treasurer may petition the DLGF to establish a schedule of installments with respect to one or more classes of real property for the payment of property taxes. The DLGF must prescribe the form of the petition; determine the information required on the form; and notify the county treasurer of the DLGF's determination on the petition not later than 10 days after receipt of the petition. As a result of this bill, the DLGF will receive petitions from county treasurers asking the DLGF to establish a schedule of installment payments for property taxes. The DLGF must also respond to the petitions. The DLGF will incur administrative expenses as a result of these provisions. However, the DLGF should be able to absorb any additional administrative costs resulting from these provisions given its current resources and budget.

Waivers of Late Penalties. The DLGF must prescribe the form of the petition and indicate information necessary for the petition to waive late payment penalties on property taxes on real property resulting from increases of a percentage determined by the county treasurer. As a result of this bill, the DLGF will receive petitions from county treasurers asking for a waiver of all or part of the penalty imposed on late property taxpayers. The DLGF must also notify county treasurers of the DLGF's decision on the petition not later than 30 days after the receipt of the petition. The DLGF should be able to absorb any additional administrative costs resulting from these responsibilities given its current resources and budget.

Electronic Submittal of Sales Disclosure Forms. P.L. 6-1997, Sec. 26, required the county assessor or the township assessor in a county with a consolidated city to forward sales disclosure information to the State Board of Tax Commissioners (now the Department of Local Government Finance). The DLGF receives about 200,000 submissions a year from local units. However, the information is submitted in a printed format. In order to analyze the information, the DLGF would have to input the data into their computer

system. Currently, the information is stored in a warehouse. Electronic submission would allow the DLGF to conduct analyses without having the administrative expenses associated with inputting the data. P.L. 245-2003, effective July 1, 2003, required assessors to forward sales disclosure information to the Legislative Services Agency. However, as of October 2003, LSA has not received any sales disclosure data in either printed or electronic format. The DLGF must collect penalties imposed. The DLGF should be able to absorb any additional costs associated with the administration of this provision given its current budget and resources.

Assessment Software. The DLGF must study the feasibility of creating uniform and common computer software programs for property tax assessment purposes, including computer software programs that allow the sharing and transfer of assessment data in a uniform format by all counties. The DLGF must report the results of the study to the Commission on State Tax and Financing Policy before September 1, 2004. The DLGF will incur expenses as a result of the proposal. The specific impact is indeterminable and will depend on the nature and extent of the study. However, the bill provides that upon approval of the Governor, the Budget Agency may authorize the payment of expenses incurred by the Department in conducting the study from amounts allotted from the Departmental and Institutional Emergency Contingency Fund. The fund was appropriated \$9.6 M for the 2004-2005 biennium. For FY 2004, no funds have been expended from the Fund.

Provisional Property Tax Statements. This bill provides that if the county auditor or 50 property owners request a waiver of the provisional tax statement requirements, the DLGF must provide notice of a hearing concerning the request. After the hearing, the DLGF may waive the use of a provisional tax statement for a particular assessment date under certain conditions. The State Board of Accounts (SBA) must approve the form of the provisional statement. The provisional statement must be based on 90% of the tax liability. The DLGF may permit the county treasurer to issue a reconciling statement that adjusts the amount of the November installment that was specified in the provisional statement. The DLGF may adopt emergency rules to provide a methodology for a county treasurer to issue provisional statements. The above provisions may increase administrative expenses to the DLGF; however, it is assumed that the DLGF will be able to absorb any additional administrative expenses given its current budget and resources.

Appeal Process. IC 6-1.1-15-1(c) provides that the DLGF must prescribe the form as well as instructions for the petition for review to the county board of appeals. The DLGF is also required to prescribe a form for a response by the township assessor to the petition for review. This proposal eliminates these responsibilities. Under the proposal the DLGF may not prescribe a form for a request for a preliminary conference, but must prescribe the form for writing down the results of the preliminary conference (IC 6-1.1-15-1(f) under the proposal). Section 4 of the proposal provides that the DLGF may modify the form known as the "Form 130" to enable township assessors and taxpayers to report the results of the preliminary conference to the appropriate county board of appeals. Changing the DLGF's responsibilities relative to the prescription of forms should not have a significant impact on the DLGF.

Levy Excess Fund: If increased revenue to the Levy Excess Fund reduces the levies below the maximum levy as explained in *Explanation of Local Revenues*, then the state would realize a savings equal to 20% of the portion of the reduction attributable to real and nonbusiness personal property. However, for school general funds, the state would save 60% of the reduction attributable to business personal property and 68% of the portion of the reduction attributable to real property and nonbusiness personal property. This savings would come from a reduction in the payment of PTRC. In addition, the state is responsible for Homestead Credits equal to 20% of the net levy. Any levy reduction would also reduce the state's Homestead Credit liability.

Explanation of State Revenues:

Effect on State Fair and State Forestry Funds: The AV reduction resulting from several property tax deduction proposals would cause a reduction in revenue for the State Fair and State Forestry Funds. The following table summarizes the change in revenues for the State Fair and State Forestry funds under this bill.

Estimated Change in State Fair and State Forestry Fund Revenue			
	FY 2004	FY 2005	FY 2006
Deduction/Credit Filing Extension	(59,000)	(59,000)	
Standard Homestead Deduction	(300,000)	(160,000)	
Historic Homestead Deduction	(43,000)	(86,000)	(86,000)
Farmstead Deduction	(23,000)	(45,000)	(42,000)
Net Change	(425,000)	(350,000)	(128,000)

Three Appraisal Methodologies for Rental Properties. For assessment dates after February 28, 2003, the bill provides that real property regularly leased or rented must be assessed at the lowest valuation that results from the use of three methodologies: cost approach, sales comparison, and income capitalization. For assessment dates after January 14, 2003, the true tax value of rented mobile homes must be assessed at the lowest valuation that results from the use of three methodologies. This provision may affect the amount of revenue that is generated for the state property tax for State Fair and State Forestry.

Bond Bank Investments: This bill would allow the State Treasurer to invest state funds in certain Indiana Bond Bank (IBB) obligations which are secured by tax anticipation time warrants or notes. The short-term investment of state funds in IBB obligations would help reduce the cost of issuing additional rollover funding for the local units of government who are unable to repay their current loans by December 31, 2003. Potential investment of state funds include funds in the Common School Fund, the Public Depository Insurance Fund, and any other fund under the authority of the State Treasurer.

Background: Currently the IBB has \$1.4 B in outstanding bonds for approximately 221 local units of government who borrowed funds in anticipation of their 2003 property taxes. Due to the delay in getting property tax bills out for the 2002-2003 reassessment, it is anticipated that some local units may not be able to repay their loans which are due on December 31, 2003. Local units who have not received their final settlements for the 2003 property taxes have 3 options available to them to facilitate repaying the IBB loans. First, they could borrow from other local funds or reserves within the county. Second, they could also borrow funds from another financial institution. Finally, they have the option to participate in a rollover bond issue with the IBB.

Based on a survey conducted by the IBB, 104 local units of government indicated that they may need to participate in a rollover bond issue due to the delay in the collection and final settlement of the 2003 property tax bills. This represents approximately \$426 M in outstanding loans which would need to be rolled over into another bond issue. Investment of state funds in the IBB rollover issue will reduce the cost of the underwriter fees and allow more flexibility in the repayment of these new loans.

The total fund equity in the Common School Fund at the end of FY 2003 was \$498.3 M. There are potentially \$200 M of this reserve which may be available for short term investments in the IBB rollover bond issue. The Treasurer's Office is currently evaluating other fund balances which may be available for this investment option.

DLGF Takeover of Assessment. The DLGF or contractor may petition the Indiana Tax Court to order local assessing officials to provide information. The Tax Court may order the official to provide information. If a local official is found to be in contempt of the Tax Court, the defendant may be adjudged to pay a fine of at least \$50, or to be imprisoned for contempt. Civil fines would be deposited in the state General Fund. Also, an official who fails to provide information requested commits a Class A misdemeanor. If additional court cases occur and fines are collected, revenue to both the Common School Fund (from fines) and the state General Fund (from court fees) would increase. The maximum fine for a Class A misdemeanor is \$5,000. However, any additional revenue would likely be small.

Explanation of Local Expenditures:

Deduction/Credit Filing Extension: There are 10 counties that currently provide a locally funded homestead credit. These counties include Allen, Madison, Marion, Miami, Monroe, Perry, St. Joseph, Spencer, Tippecanoe, and Vanderburgh.

If additional taxpayers in these 10 counties receive the state homestead credit in CY 2004 as a result of this provision, they will also receive the local homestead credit. The additional local homestead expense for all 10 counties is estimated at about \$2.7 M.

This local homestead credit is paid for with County Option Income Tax (COIT) proceeds. The amount of COIT revenue available for distribution to local civil taxing units would be reduced by the amount spent for local homestead credits. The additional \$2.7 M in local homestead credit expense would, therefore, reduce distributions to the civil taxing units in these counties in CY 2004.

Taxpayer Notice: Under current law, county treasurers have been required to include a notice with 2003 property tax bills. This notice must include a statement regarding reassessment and actions taken by the General Assembly to mitigate the effects of reassessment. The county must also provide a comparison of (1) each taxpayer's actual property tax liability and (2) the exact amount that the tax liability would have been in the absence of the passage of HEA 1001-2002(ss).

Under this proposal, the notice would be mailed only to owners of homestead property and would include a comparison of the average net tax on homesteads in the county, with and without the tax mitigation enacted by the General Assembly. The notice would not compare the exact amount of property tax for each parcel. The treasurer would be required to include the statement with 2004 property tax bills.

The DLGF would prescribe the form and provide it to county treasurers by the date that 2004 budgets and tax rates are certified. Budgets and rates must be certified by February 15. The DLGF could compute an estimated average 2004 net tax for homesteads using parcel record data provided by the counties for taxes paid in 2003. Because of late 2003 tax billings, this data may not be available in a timely fashion for all counties.

Other Provisions that Reduce Homestead Credit: The remaining provisions of this bill that reduce state liability for homestead credit would also result in a small reduction in the amount that counties pay for these

local credits.

Three Appraisal Methodologies for Rental Properties. For assessments dates after February 28, 2003, the bill provides that real property regularly leased or rented must be assessed at the lowest valuation that results from the use of three methodologies: cost approach, sales comparison, and income capitalization. For assessment dates after January 14, 2003, the true tax value of rented mobile homes must be assessed at the lowest valuation that results from the use of the three methodologies. These provisions may result in additional administrative expenses to local assessors to the extent that the officials may have to perform additional calculations in order to determine the assessed value of rental property. This impact is not expected to be significant.

DLGF Takeover of Assessment. For all counties except Lake County, with respect to the 2003 general reassessment, if a state-conducted reassessment is ordered, the reassessment duties of a reassessment official in the county are limited to providing the DLGF with support and information. Township and county officials must make available all data, records, maps, parcel record cards, forms, computer software systems, computer hardware systems, and other information related to the reassessment of real property in the county. The information must be provided at no cost to the DLGF.

The county must pay the cost of a contract for reassessment from the county's property reassessment fund. A contractor must file with the county auditor a duplicate copy of the bill submitted to the DLGF along with proof of the Department's approval. Upon receipt, the county auditor must immediately certify that the bill is true and correct without further audit, publish the claim, and submit the claim to the county executive. The county executive must allow the claim, as approved by the DLGF, and the county auditor must immediately issue a warrant or check for the full amount of the claim. Payment of the claim is not subject to remonstrance and appeal.

Penalty Provisions: A failure to provide information constitutes a failure to perform a duty related to a general reassessment and is a Class A Misdemeanor, which is punishable by up to one year in jail.

Installment Payments of Property Taxes: County treasurers will likely petition the DLGF to allow for payment of property taxes in installments. Counties should be able to absorb any additional administrative costs resulting from these petitions given their current resources and budgets. The specific impact is indeterminable, would vary by county, and would depend on what actions, if any, the county took during the preceding year to adjust for reassessment. Paying property taxes in installments could also delay the receipt of revenues by local units which may in turn result in additional interest charges paid on loans taken out by local units because their revenue distributions are delayed.

Waivers of Late Penalties. County treasurers will likely petition the DLGF. Counties should be able to absorb any additional administrative costs resulting from these petitions given their current resources and budgets.

Qualifications of Assessors. This bill provides that each county assessor and each elected assessor who has not attained a Level II certification must employ a Level II assessor-appraiser. To qualify to serve as an elected county assessor, a township assessor, or an elected trustee-assessor after December 2005, the assessing official must be certified as a Level I or Level II assessor-appraiser. To continue to serve after December 2006 or within one year after taking office, an assessing official must complete Level II certification. A person who does not comply with this requirement forfeits the assessor's or trustee-assessor's office. The fiscal impact of these provisions is indeterminable and will vary from office to office. Requiring certain qualifications could result in the local district paying travel expenses for training or in an increase

in compensation for the assessing official.

Four counties—Newton, Crawford, Perry, and Union—did not appear to have a Level II assessor-appraiser at the county level. About 460 townships had staff certified at Level II. Approximately 125 vendors are Level II certified. During the most recent reassessment, for taxes payable in 2003, 64 counties contracted with vendors to perform some portion of the reassessment function.

Electronic Submittal of Sales Disclosure Forms. This bill provides that after December 31, 2004, the sales disclosure forms and data forwarded by local assessors to the DLGF and Legislative Services Agency (LSA) must be provided in electronic format. Currently, the county assessor must forward the sales disclosure form or data to the DLGF and LSA in electronic format *if possible*. It is possible that submitting the data electronically, as opposed to printed form, will change expenditures for local units. The change in expenditures may vary by county and will depend on how local units are currently collecting and submitting the information.

Elimination of Taxpayer Notice of Assessment. Under current law whenever an assessment is made, the assessing official sends a notice to the taxpayer of the assessment. The taxpayer has 45 days to appeal to the county board and, after the county review, 30 days to appeal to the state. The proposal provides that the assessing official is not required to send a notice if an assessment is made. The assessment would go to the county auditor who would use the assessment to generate a tax statement. When the taxpayer receives the tax statement, the taxpayer would then have 45 days to appeal to the county, and, after the county review, 30 days to appeal to the state. This provision will decrease expenditures to local units because it reduces printing, mailing, and related administrative costs associated with the notice.

Provisional Property Tax Statements. For the 2003 pay 2004 assessment, the county treasurer may use a provisional statement based on 90% of tax liability if the county auditor fails to deliver the abstract before March 16 of the year following the assessment date. The county treasurer must give notice of the provisional statement by publication in a form prescribed by the DLGF. The county auditor or 50 property owners may request that the DLGF waive provisional tax statement requirements for a particular assessment date.

As soon as possible after the receipt of the abstract, the county treasurer must mail reconciling statements. If, upon receipt of the abstract, the county treasurer determines that it is possible to complete the transmittal of the reconciling statement at least 30 days before the due date of the November installment specified in the provisional statement, the county treasurer may request in writing that the DLGF permit the county treasurer to issue a reconciling statement that adjusts the amount of the November installment that was specified in the provisional statement. The board of county commissioners may authorize the county treasurer to open temporary offices to receive payments in municipalities in the county other than the county seat. The above provisions will affect local expenses; the specific impact, however, is indeterminable and will vary by county.

Appeals Process. IC 6-1.1-9-1 provides that if a township assessor, county assessor, or county property tax assessment board of appeals believes that any taxable tangible property has been omitted from or undervalued on the assessment rolls or the tax duplicate for any year, the official or board must give written notice of the change in assessment. The notice must contain a description of the taxpayer's right to file a petition for review with the county property tax assessment board of appeals. The proposal removes the petition process and replaces it with a request for a preliminary conference to review the assessment. Consequently, the assessing official would now notify the taxpayer of the right to request a preliminary conference instead of the right to file a petition. This provision should have no significant fiscal impact.

IC 6-1.1-15-1 provides that in order to appeal a current assessment and have a change effective for the most recent assessment date, a taxpayer must file a petition with the county assessor. The county assessor then notifies the county auditor that this assessment is under appeal. Under the proposal, the taxpayer must request in writing a preliminary conference with the township assessor, and the township assessor notifies the county auditor. After the conference, the township assessor would complete a form outlining the results of the conference and forward the report to the county board of appeals. The preliminary conference must be held before a review by the county board of appeals. If after the conference, the taxpayer and assessor are in agreement, the results would be reported to the county board of appeals and the board would not have to conduct a review. However, if there is disagreement, then the board must hold a review and the county and township officials must attend. These provisions could decrease the number of reviews held before the board which could save administrative expenses for local officials involved with the assessment process because some issues could be resolved before a review by the board is necessary.

Because the form for petition is eliminated, the county assessor and county board of review will no longer have to assess petitions filed to determine compliance, return forms that are incomplete and defective, and then process corrected petitions. This provision should reduce expenditures.

Automatic Refunds for Successful Appeals. The county auditor must determine the amount of the refund for successful assessment appeals without the taxpayer having to file a claim and without the board of county commissioners having to allow the claim. This provision should reduce administrative expenses to the extent that it streamlines the current process.

Special Masters. The taxpayer may appeal a determination of the DLGF to the Indiana Board of Tax Review. The Board may contract with, appoint, or otherwise designate special masters to conduct evidentiary hearings and prepare reports. Each contract with a special master must specify the compensation and entitlement to reimbursement for expenses, which will be paid from the county property reassessment fund. Payments from the county reassessment fund may not exceed \$500,000. The special masters must set a hearing date and give notice of the hearing and mail to the taxpayer, the DLGF, the township assessor, and the county assessor. At the hearing the township assessor and the county assessor may attend. These provisions will increase costs to the counties by an indeterminable amount. The impact will depend on the number and nature of appeals.

Explanation of Local Revenues:

Deduction/Credit Filing Extension: The property tax deductions that would be available for taxes paid in 2004 under this proposal if applied for by December 15, 2003, include the mortgage, aged, blind/disabled, and veterans deductions. The \$35,000 standard deduction is also included and is automatic when the homeowner receives the homestead credit.

This analysis assumes that the percentage of taxpayers who qualify for these deductions and who would benefit from this proposal is the same (5.7%) as the number that could benefit under the homestead credit portion of the bill. If all of the eligible taxpayers file for these deductions, there would be an estimated 6.1% increase in the deductions along with an additional 95,000 standard deductions at \$35,000 each that would result in a loss of assessed value estimated at \$3.59 B.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. **An additional \$3.59 B in deductions would cause a \$0.035 increase in the statewide average gross tax rate and would shift approximately \$70 M to other taxpayers.** Total local revenues, except for cumulative funds, would

remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Taxpayer Notice: The county treasurer would have to certify compliance with the statement requirements to the Department of State Revenue. Failure to certify compliance would result in the state's withholding of the November 2004 installment of Property Tax Replacement Fund (PTRF) distributions to the county. Distributions to the counties from the PTRF are distributed by the county to all local civil taxing units and school corporations within the county. The November 2004 distribution is estimated to total \$350.5 M. A county whose distribution is withheld would receive the money when the county treasurer is in compliance.

Standard Homestead Deduction: Under current law, each homestead may receive a deduction from assessed value in the amount of \$35,000 or ½ of the gross assessed value (AV), whichever is less. This proposal would raise the \$35,000 to \$44,000 in CY 2004 and \$39,500 in CY 2005. The deduction would return to \$35,000 in CY 2006. The deduction would still be limited to ½ of AV.

Based on parcel data received from a small number of counties, the current \$35,000 deduction is expected to total about \$49.9 B in AV, statewide. This proposal would increase the deductions by an estimated \$8.9 B in CY 2004 and \$4.8 B in CY 2005. **The net tax shift from these additional deductions is estimated at about \$173 M in CY 2004 and \$95 M in CY 2005.** These amounts would be shifted from homesteaders to all property owners in the form of a higher tax rate. A portion of the shift, as much as 30%, would fall back onto homesteaders as they too would pay the higher tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Historic Homestead Deduction: Under this proposal, homesteads that are more than 100 years old would qualify for a \$9,000 AV deduction. Homesteads that are between 50 years and 100 years old would qualify for a \$4,500 deduction. This deduction would first be available for taxes paid in CY 2004.

Based on available 2003 property tax parcel record data received to date, it was estimated that as many as 450,500 homesteads would qualify for the \$4,500 deduction, while 66,800 homesteads would qualify for the \$9,000 deduction. The total deduction amount is estimated at \$2.63 B AV. **This deduction would result in an estimated net property tax shift of about \$51 M beginning in CY 2004.** These amounts would be shifted from homesteaders in older homes to all property owners in the form of a higher tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Farmstead Deduction: Beginning with property tax paid in CY 2004, this bill would allow a deduction from the assessed value of agricultural land owned by an individual or a corporation if the owner actively participates in the use of the agricultural land. Each owner would be eligible to receive only one deduction statewide, regardless of the number of farms owned. The deduction would be equal to \$44,000 for taxes paid in 2004, \$39,500 in 2005, and \$35,000 for all other years. In all years, the amount of the deduction would be limited to 20% of the assessed value of the land.

Based on the number and size of farms reported in the 1997 Census of Farms, the reduction in AV is estimated at \$1.40 B AV for taxes paid in 2004, \$1.31 B AV in 2005, and \$1.22 B AV for all other years. Reductions of the AV tax base cause a shift of the property tax burden from the taxpayers receiving the reductions to all taxpayers in the form of an increased tax rate. **These deductions would cause an estimated statewide net tax shift of about \$27.3 M CY 2004, \$26.0 M CY 2005, and \$24.7 M CY 2006.** Total local

revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

Three Appraisal Methodologies for Rental Properties. For assessment dates after February 28, 2003, the bill provides that real property regularly leased or rented must be assessed at the lowest valuation that results from the use of three methodologies: cost approach, sales comparison, and income capitalization. For assessment dates after January 14, 2003, the true tax value of rented mobile homes must be assessed at the lowest valuation that results from the use of the three methodologies. This provision may result in a change in the assessed value tax base which would cause a shift of the property tax burden from the taxpayers receiving reduced assessed values to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the reduced assessed value amount applicable to that fund.

DLGF Takeover of Assessment. If money in a county's property reassessment fund is insufficient to pay for a reassessment, the DLGF may increase the tax rate and tax levy of the county's property reassessment fund to pay the cost and expenses related to the reassessment.

If the county fails to pay the contractor, the Treasurer of State will pay the contractor from money in the possession of the state that would otherwise be available for distribution to the county, including distributions from the Property Tax Replacement Fund or distribution of admissions taxes or wagering taxes.

Installment Payments of Property Taxes: Allowing for payment of property taxes in installments could reduce penalties assessed for late payments. The specific impact is indeterminable and will vary among taxing districts. Penalties collected from a taxpayer are credited to the appropriate taxing units and are distributed in the same manner as other property taxes—based on a unit's levy as a proportion of all levies within the taxing district. Paying property taxes in installments could also reduce interest earned on taxes that would have been collected sooner under the current system. There is a potential for interest earnings lost between May 10 of the year in which the taxes are due and June 30 of the subsequent year.

Waiver of Late Penalty Payments. Under current law, if an installment of property taxes is not completely paid on or before the due date, a penalty equal to 10% of the amount of delinquent taxes is added to the unpaid portion. This bill allows the DLGF to accept waivers of penalty payments for property taxes on real property for which a general reassessment or an annual assessment adjustment caused a tax increase from the preceding year of a percentage determined by the county treasurer. These provisions could reduce the amount of revenue collected for late payment penalties. The specific impact is indeterminable and will vary among taxing units. Penalties collected from a taxpayer are credited to the appropriate taxing units and are distributed in the same manner as other property taxes—based on a unit's levy as a proportion of all levies within the taxing district.

Validating Actions Taken by the DLGF: The proposal validates and legalizes action taken by the DLGF prior to January 1, 2004, relative to allowing a taxpayer to petition more than 45 days after notice of a change in assessment; allowing the payment of property taxes in installments that are not already provided for; and waiving all or part of a late penalty. These provisions will not have an impact on local revenue to the extent that they put into statute current practices.

Provisional Property Tax Statements Requirements. This bill increases the amount required for future provisional tax bills from 70% to 90% of the prior year's billing. Increasing the amount of the provisional statement from 70% to 90% of the prior year's billing will result in local units receiving at least 20% of the

revenue earlier than what they would have with a 70% requirement.

Maximum Levies: Under current law, a civil taxing unit's maximum permissible levy grows each year by the six-year average increase in Indiana nonfarm personal income. The annual increase is limited to 6%, although a taxing unit may appeal to the state's Local Government Property Tax Control Board for a larger increase in the maximum levy if the unit's AV growth is 3% greater than the statewide average growth in AV.

This proposal would make three changes to the 2004 maximum levy calculation. First, the 2003 unit, Family and Children Fund, and Children's Psychiatric Services Fund maximum levies (as they are used as a base for the 2004 maximum levies) would be recalculated by reducing the 2002 maximum levy base by any unused levy authority.

The total 2003 maximum levy authority for civil units and the Family and Children Fund is \$2,818 M. This bill would reduce those maximum levies by about \$400 M. Not all units use their entire levy authority, and the portion of levy authority that was actually used in 2002 was smaller than the portion in 2003. Accordingly, the entire \$400 M in max levy reductions would not be realized as levy reductions. Based on the difference between the 2003 levies and the 2003 recomputed maximum levies for counties that have received certified levies, **the actual levy reduction is estimated at about \$110 M.** This number was derived from data showing that almost half of all taxing units have received 2003 certified levies. These counties represent almost 60% of the total maximum levy. The certified levy in these counties would have been reduced by about \$64 M if this bill were effective for property tax paid in 2003.

The second change would eliminate banking of future unused maximum levies. Each year, the maximum levy would be equal to the prior year's actual levy increased by the growth factor. Currently, the prior year's maximum levy serves as the base for the new year's maximum levy calculation.

The third change would reduce the upper limit of maximum levy increases from 6% to 5%. This change would most likely have no effect in 2004 as the 2004 increase has been set at 4.7%. This change does not limit a growing unit's ability to appeal for a higher percentage increase.

Certified Assessed Value: Under current law, the county auditor may keep the AV of certain property in bankruptcy and assessments under appeal separated from other property on the tax duplicate. This AV is not considered in the county auditor's certification of AV for use in fixing tax rates.

When assessed value is removed from the AV certification, the tax rate is increased in order to generate the desired certified levy. When tax bills are calculated, the tax rate is applied to all AV, including the amount removed from certification. This generally results in a larger charged levy (or abstract levy). Some of this abstract levy may not be collected due to successful appeals. If the amount of AV removed from certification is too low, then the tax rate is set too low and the unit suffers a revenue shortfall. However, if too much AV is removed, then the tax rate is set too high, generating too much property tax revenue. Taxing units may spend up to 102% of their certified levies. Collections over 102% of the certified levy must be deposited into the levy excess fund. Money in this fund may be used to pay tax refunds and to reduce future tax levies.

This bill would remove county auditors' authority to reduce the certified AV to compensate for appeals. The inclusion of AV that is successfully appealed would cause some tax rates to be set too low, resulting in tax shortfalls. However, the bill also allows civil units and school corporations to seek an excessive levy in the following year to compensate for shortfalls caused by successful appeals.

The amount of reduced tax billings under this provision would be difficult to estimate. This proposal would first be effective for taxes paid in 2004. When final values are certified for 2004 tax rate calculations, many appeal issues from 2003 will probably have been dealt with and would no longer be an issue. Still, there will be appeals that have not been settled and even new appeals that were filed after the deadline for 2003 taxes. Also, any levy imposed to cover a previous year shortfall would reduce the levy savings. Taxing units would rarely have any collections over 100% of certified levy under the proposal, but certified levies would increase because of the excessive levies for shortfalls. Over time, the reduction in levies would most likely equal between 0 and 2% of the certified levy.

Approval of Appointed Library Board Levies: Under current law, fiscal bodies of cities, towns, and counties must review and adopt budgets and tax levies for taxing units that (a) are not comprised of a majority of officials who are elected to serve on the governing bodies and (b) are proposing an increase in the tax levy that is greater than 5%. This provision does not currently apply to library boards. The fiscal bodies that review and adopt the budgets are currently prohibited from reducing the proposed tax levy to an amount that is less than the maximum levy.

Under this proposal, any budget proposed by an appointed library governing body would have to be reviewed by an elected fiscal body. There are 239 library boards.

The added review and the provision that would allow the elected bodies to reduce the appointed bodies' levies below the maximum levy could slow the growth of, or reduce, some levies. A reduction of the property tax levy would mean a reduction of revenues for the taxing unit.

Maximum Tax Rates: This bill would make adjustments to the property tax rates mentioned in multiple code sections that deal with (1) maximum property tax rates and (2) appropriations or transfers based on the amount of money generated by a specified tax rate. The levies and appropriations certified under the affected sections are relatively small. The statutory rates for most of the levies governed by rate caps are already adjusted for reassessment under current law.

After a general reassessment (or an annual AV adjustment beginning with taxes paid in 2006), the increase in assessed value can cause an increase in certain levies or appropriations if they continue to be based on the unadjusted maximum statutory rate. This bill would result in an adjustment to each of these maximum tax rates so that the available levy or appropriation would be unaffected by changes in AV due to reassessment. These levies and appropriations would continue to grow by actual added property value.

The bill includes language to adjust the 2003 base rate as if this bill was in effect for 2003 taxes. The bill would first take effect with property taxes paid in CY 2004. If a taxing unit increased a levy or appropriation in 2003 because of the new assessed value under reassessment, this bill would have the effect of reducing that levy or appropriation for 2004. Any reduction, however, would be equal to the amount necessary to bring the levy or appropriation back in line with the maximum amount allowed in CY 2002 plus actual AV growth.

Levy Excess Fund: Under current law, if the actual property tax distribution exceeds the certified levy, a local unit may retain an amount equal to 2% of the certified levy in the fund and deposit the amount over 102% of the certified levy in the Levy Excess Fund. The DLGF may require a civil taxing unit to include the amount in the Levy Excess Fund when setting the unit's budget.

The bill requires the total amount of actual property tax distributions that exceed the certified levy to be deposited in the Levy Excess Fund and requires the unit to use the amount in the Levy Excess Fund when

setting the unit's budget. The amount that the actual property tax distributions have exceeded a civil taxing unit's budget have varied over the last eight years. The following chart shows the amount that property tax distributions exceeded certified levies, the amount units could retain, and the amount that was required to be deposited in the Levy Excess Fund.

	Amt PT Dist exceeded Cert Levy	Amt Unit could Retain	Amt Deposited in Levy Excess
1995	73,385,204	47,008,275	26,376,929
1996	45,750,986	25,225,183	20,525,803
1997	107,720,663	48,072,942	59,647,721
1998	39,824,665	30,705,905	9,118,760
1999	51,280,112	36,174,394	15,105,718
2000	58,286,745	45,979,060	12,307,685
2001	44,961,095	34,554,098	10,406,997
2002	33,105,446	21,193,208	11,912,238

The bill would increase the revenue into the Levy Excess Fund and reduce future levies. Based on the prior eight years of property tax distributions and certified levies, the increase in revenue to the Levy Excess Fund (and reduction in future levies) would be between \$21.2 M and \$48.1 M annually.

State Agencies Affected: Department of Local Government Finance, State Board of Accounts, Treasurer of State, Department of Administration, State Budget Agency, Indiana Bond Bank.

Local Agencies Affected: All.

Information Sources: Nancy Stassen, Director, Operations Division, and Pam Drinkard, Department of Local Government Finance; Dan Huge, Indiana Bond Bank; 2002 and 2003 County Auditors' Abstracts; County property tax parcel record data; Census Bureau; Local Government Database.

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